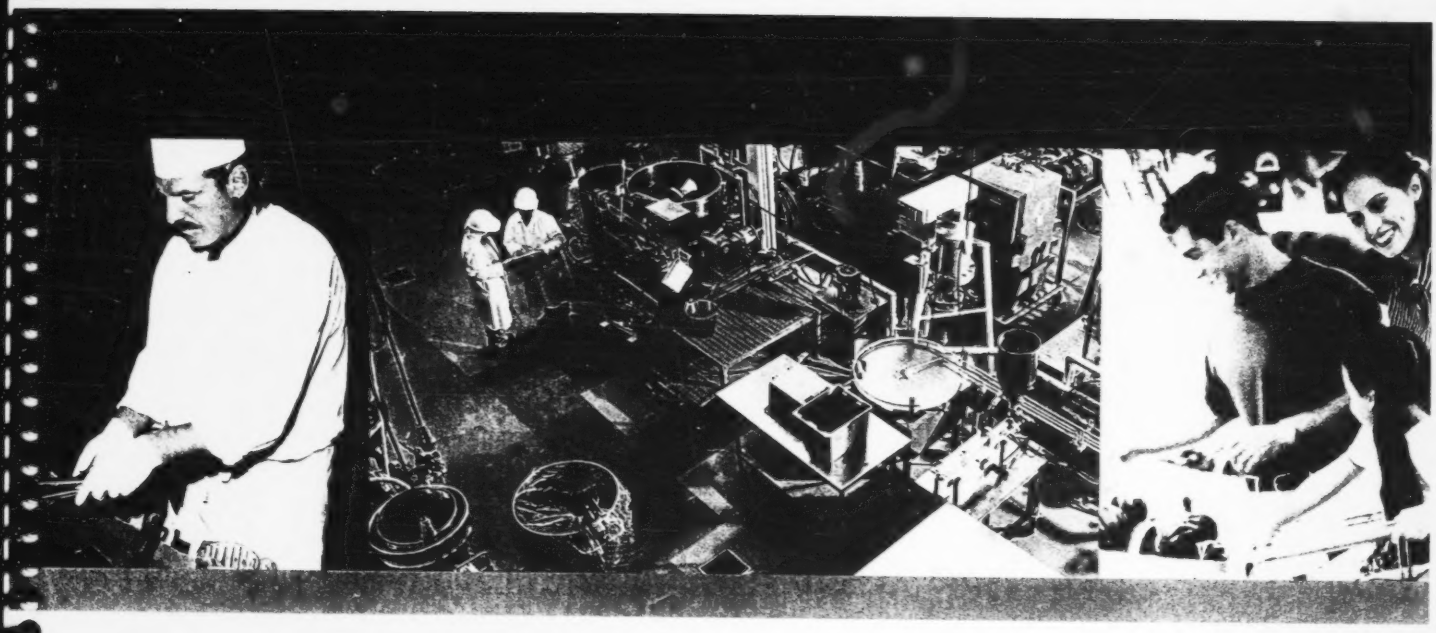


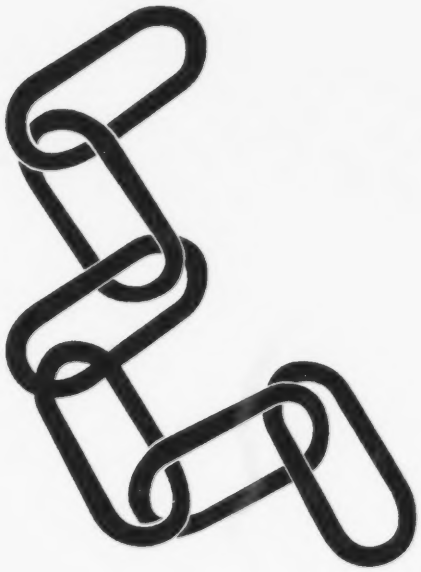
VALUE CHAIN HANDBOOK

New strategies to create more rewarding positions in the marketplace.

Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Alberta
AGRICULTURE, FOOD AND RURAL DEVELOPMENT

VALUE CHAIN HANDBOOK



New strategies to create more rewarding positions in the marketplace

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Contents

Introduction 1
The Value Chain Development Handbook 1
The Case Study Example 1
Value Chain Worksheets 1

Value Chain Development 2
What are Value Chains? 2
What Can Value Chains Do for Me and My Enterprise? 3
How Can I Effectively Build a Value Chain 3

Stage One: Evaluating 5
Activities in the Evaluating Stage 5
Step 1: Evaluate the Idea and the Market 5
Step 2: Review Strategy 7
Step 3: Assess Resources, Risks and Rewards 7
Key Success Factors in the Evaluating Stage 8

Stage Two: Planning 10
Activities in the Planning Stage 10
Step 1: Select Partners 10
Step 2: Build Relationships 10
Step 3: Agree on Goals and Measures 10
Key Success Factors in the Planning Stage 11

Stage Three: Managing 14
Activities in the Managing Stage 14
Step 1: Launch Pilot Project 14
Step 2: Integrate Systems 14
Step 3: Build and Adapt 15
Key Success Factors in the Managing Stage 15

Wrap Up 17

Value Chain Development Worksheets 19

Stage One: Evaluating 19

Step 1: Evaluate the Idea and the Market 19

Step 2: Review Strategy 22

Step 3: Assess Resources, Risks and Rewards 24

Stage One: Key Success Factors Check List 25

Stage Two: Planning 26

Step 1: Select Partners 26

Step 2: Build Relationships 31

Step 3: Agree on Goals and Measures 32

Stage Two: Key Success Factors Check List 34

Stage Three: Managing 35

Step 1: Launch Pilot Project 35

Step 2: Integrate Systems 36

Step 3: Build and Adapt 37

Stage Three: Key Success Factors Check List 37

How Can We (The Value Chain Initiative) Help? 38

References 38

Introduction

"Value chain" has recently emerged as a popular business term. Given the difficulty in creating and maintaining value in an intensely competitive world of changing markets and technologies, businesses are now forming value chains to meet new demands and remain viable. Companies find it difficult to *go it alone* in these circumstances. They find strength and security in a customer-focused chain that might begin in a farmer's field and end in the supermarket.

The Value Chain Development Handbook

This Value Chain Development Handbook (referred to as the Handbook) attempts to map out the typical steps involved and the factors that contribute to success in building a value chain. The development of any value chain will vary a great deal from one case to another, so this Handbook offers a suggested approach that you can modify to suit your own needs.

The Case Study Example

To illustrate how value chains can develop, a hypothetical case study example of a fruit beverage value chain has been provided: *The Evolution of the Alberta Elderberry Value Chain*. The case study has been designed to outline how a value chain might evolve and some of the challenges that can be encountered along the way. It will help illustrate each of the major stages of value chain development.

Value Chain Worksheets

A series of worksheets accompanies this Handbook. The worksheets should help you keep track of your progress, address problems and work to develop your value chain further. You may choose to do a quick read through this Handbook to get a sense of what might lie ahead, and in your second reading, work through the steps with your value chain partners and record your activities and plans in the worksheets.

At selected points in the Handbook, the symbol ✎🕮 invites you to turn to the worksheets to begin your own value chain development process.

Value Chain Development

This Handbook answers these questions:

- What are value chains?
- What can value chains do for me and my enterprise?
- How can I effectively build a value chain?

What are Value Chains?

Agri-food value chains are designed to increase competitive advantage. They do this by linking producers, processors, marketers, food service companies, retailers and supporting groups such as shippers, research groups and suppliers. The following examples illustrate value chains:

- J. Sainsbury is a food retailer in the United Kingdom. The company linked its field production practices with its supermarket sales to form value chains with key suppliers of beef, veal, lamb, pork, potatoes, onions and fresh fruit. Sainsbury worked with its suppliers over the long-term to improve quality, consistency and safety of its food supply.
- Closer to home, Canadian Rocky Mountain Resorts established a ranch near Calgary to produce specialized livestock. It then partnered with other producers and processors to ensure the supply and consistency of bison, elk and caribou meat served at their resorts as "Rocky Mountain Cuisine."
- In Vegreville, Alberta, the Highland Premium Alberta Beef Alliance produces high quality hormone-free and antibiotic-free premium beef for high-end markets. Using computer records, Highland provides data about individual steers such as daily weight gain and medical history that allows ranchers to select bloodlines to improve their cattle management. Highland's value chain program allows them to compete in premium markets through the development of unique beef products and data systems that verify and trace their products for demanding, high-end customers.

The basic characteristic of a value chain is *market-focused collaboration*: different business enterprises working together to produce and market products and services in an effective and efficient manner. This collaboration works through the chain, perhaps linking farmers with processors and marketers. There are many reasons why and how companies collaborate.

- A value chain is an extended enterprise. When the chain's products and processes are difficult for others to copy, the value chain has a competitive edge.
- Value chains provide a unique way to manage risk. Buyers are assured a supply of products and are able to trace the food back to the farm of origin, while suppliers are more assured of a market.
- Value chains can improve access to a market and reduce the time it takes to respond to changing customer demands.

We now turn to the Alberta Value Chain Initiative's definition of a value chain.

*A value chain is a **VERTICAL ALLIANCE of enterprises COLLABORATING to achieve a more REWARDING position in the MARKET.***

What is a *VERTICAL ALLIANCE*? "Vertical" means that companies are connected from one end of the production process (e.g., in a farmer's field), through other steps such as processing, and possibly into the final marketing stages where customers and consumers purchase a finished product. Value chains differ from other types of alliances. For example, a collection of agricultural *producers* working together to consolidate supply is NOT a value chain, but rather a "horizontal" alliance.

ALLIANCE means that the companies, while still legally independent operations, become interdependent (i.e., companies have a common goal and work together to achieve it). Normally, the term "value chain" is applied when the vertical alliance includes three or more companies, known as links, in the chain.

COLLABORATING in a value chain is more than just long term contracting. Collaboration means that different companies involved in a value chain work, discuss issues and troubleshoot problems together.

Companies may give up some of their independence to make a chain work. However, the goal is to find a new approach that is more *REWARDING* than the old. Experience tells us that value chain rewards, such as higher prices, take time to materialize. In fact, price premiums may never germinate. Nonetheless, other rewards may be realized such as more security in the market and lower costs. There may be better access to a market due to market alliances. A more secure supply

and better communication may speed up the product development cycle. Or, more simply, a better working relationship can be developed.

Typically a value chain begins and ends with the *MARKET*. Chains are developed to respond to the demands of the marketplace. In other words, you don't put together a value chain and then turn on cruise control. Interaction with the marketplace provides information to decision makers for every link in the chain. A well-functioning value chain provides the means to effectively link production activities to market demands.

What Can Value Chains Do for Me and My Enterprise?

Let's consider some typical reasons for collaborating with others:

- enhance food safety
- secure supply and quality
- access new markets
- improve position in the market or enhance image
- access equipment and facilities or improve plant efficiency
- access proprietary research and technology
- speed up the process of innovation and product or market development
- obtain financial backing, reduce investment or debt load
- improve customer/supplier relationships
- gain a competitive advantage that is difficult to duplicate.

Of course, there are also risks involved in being part of a value chain. Caution should be exercised in collaborating because:

- you will only have partial control over shared business activities
- you can expect major decisions to take longer since more people are involved
- you may lose some flexibility and independence
- others may gain access to some of your proprietary information or expertise
- it takes time, effort and money to achieve a well-functioning value chain.

We are all aware that agri-business is changing. The shrinking number of buyers (i.e., consolidation) in retail, food processing and food service industries has forced suppliers (farmers or processors) to either take on large volume contracts or lose sales opportunities. Low-cost suppliers from countries such as China, Brazil and Argentina have pushed commodity prices to record lows. Furthermore, science and technology are changing the way we conduct business with innovations like e-commerce, computer controlled production equipment and new food safety tests that trace contaminants in foods to parts per *billion* (further emphasizing the importance of food safety). How do we adapt to such a rapidly changing world?

Although value chains aren't a silver bullet solution, they have helped both large and small processors, retailers and farm operators to cope in our new economy. In developing your own value chain, you will most likely find a unique approach. The stages and steps of value chain development outlined in this Handbook should be looked upon as a guide, a checklist, and an opportunity to organize your own approach. The key is to start small and, where possible, expand the scope or size of your value chain as determined by your success in the marketplace.

How Can I Effectively Build a Value Chain?

Figure 1. *Stages of Value Chain Development*

Building a value chain is like climbing a mountain; it begins with careful evaluation of alternatives, requires team planning and, lastly, demands attention to good management. At each stage, there are typical activities and requirements to get to the next level (Figure 1).

Fortunately, scaling the three stages of value chain development – evaluating, planning and managing – is

not as treacherous as mountain climbing. In cases where a value chain has not been achieved, other benefits have arisen. These benefits can include a better business partnership, a better understanding of the industry and the marketplace, improved strategic management, a new market and so forth.

Figure 2 provides a value chain map that can be referred to throughout this Handbook. Within each of the three stages of development, there are at least three steps or activities to complete before moving on to the next level. Once again, these steps and stages are intended only as a guideline. If you are able to develop a small value chain with limited initial risk, it may be possible to evaluate your partners, your resource requirements and even the market by producing, processing and test marketing the product. However, where costs for shifting to a value chain are high, then the stakes are higher and greater caution should be exercised.

If you currently operate in a partly developed value chain, you can use the activities in Figure 2 to identify which development stage you are currently at. Turn to that section of this Handbook and use that as your starting point. You may, however, want to review some of the earlier steps to ensure that new ideas and success factors have not been overlooked.

Stages of Value Chain Development

Stage One: Evaluating	Stage Two: Planning	Stage Three: Managing
■ Evaluate the Idea and the Market ■ Review Strategy ■ Assess Resources, Risks and Rewards	■ Select Partners ■ Build Relationships ■ Agree on Goals and Measures	■ Launch Pilot Project ■ Integrate Systems ■ Build and Adapt
Success Factors →		→
• Careful market review • Value chain "catalyst" • Leadership vision • Value chain knowledge • Strategic analysis • Clear company goals • Measurable objectives	• Careful partner selection • Commitment from all • Cohesion/Interdependence • A dedicated "champion" & chain manager • Collaborative planning sessions • Expert assistance in facilitation • Compelling value chain goals	• Honest pilot evaluation • Increasing cohesion • Opportunities to learn • Process for ongoing dialogue • Commitment from the top

Figure 2.

Stage One: Evaluating

There are three main activities in the evaluating stage that provide the groundwork for determining whether a value chain would work for you: carefully evaluating the market; reviewing your company's strategy and ability to shift from your current business approach to a value chain approach; and assessing your resources (e.g., money, equipment, people).

Activities in the Evaluating Stage

- **Evaluate the Idea and the Market**
- **Review Strategy**
- **Assess Resources, Risks and Rewards**

Step 1: Evaluate the Idea and the Market

Now is your opportunity to think about and write down your idea for a value chain. Some experts believe that you have the best chance of successfully developing a value chain when initial changes are focused on the process not the product. For example, in Ontario, tomato growers worked with a local processor to purchase equipment for producing bulk containers of ketchup (expanding the capacity of the plant and, therefore, the volume the growers were able to ship to the plant). The growers in effect financed the equipment by accepting a lower price for their product over a period of time. The company's decision to locate the plant in Ontario was influenced by the growers commitment to industry growth.

As you have gathered by now, you need to be creative in considering all the possibilities and opportunities at hand. The case study of the Alberta elderberry value chain illustrates this first step in the evaluation process.

Case Study: The Alberta Elderberry Value Chain

An Idea

Bill was a grain farmer as was his father and his father's father. With grain prices low and no rebound in sight, Bill has begun to consider growing other crops on his farmland. Wendy – a neighbor growing wheat, oilseeds and elderberry bushes – had encouraged him to consider growing elderberries.

After the three years it took to establish her elderberry bushes, Wendy began harvesting and squeezing the berries to produce a beverage that was a smash hit at local Bed & Breakfast operations and restaurants. Observing her small success, Peter, a local beverage processor approached Wendy to see if she could produce and sell the berries in greater volumes. Peter had been processing drinks from concentrates that were imported from outside Alberta. He believed that local berries would make for a better tasting and more nutritious drink.

Wendy felt that she lacked both the financial capital and labour resources that would be needed to achieve the expansion Peter had in mind. She was also not prepared to accept the risks that would undoubtedly arise. With these thoughts fresh in her mind, Wendy happened to meet both Bill and Peter at the local coffee shop. Sipping on their tasty elderberry concoctions, the three began questioning whether an opportunity was at hand or if this was just one of those small town ideas bound for nowhere (to be continued...).

Farmers may see clear signals in the industry and marketplace telling them it's time for a new approach to business. For these individuals, there are options such as niche market focus, integration, cooperation or value chain formation. Regardless of the approach now is the time to aggressively search for new ways to add value to the food we produce.

If you are convinced that you need to change what you produce (or process), it is wise to evaluate the market for your product carefully before devoting your time and money to the business idea. You will need to ensure that you have enough market information and access to marketing expertise. It may appear costly to get help from a reputable consultant; however, more substantial costs may arise from not getting expert advice in the early stages.

While it is a challenge finding the right person or company for the job, you will first want to consider what you need. Typically, producers do not require production information but rather, need to focus on the market. If you already have trustworthy marketing allies, you may be able to get valuable information from them, or at least

know whom best to work with. Some marketing consultants may also have expertise in helping businesses forge alliances or value chains – certainly a bonus for your work further down the road.

Through your analysis of the market, get to know your customers (or buyers), what they are looking for and what needs they have that currently are not fully serviced. Learn how price-sensitive your potential buyers are. In your market investigation you may find out that there are opportunities where you least expect them. Keep an open mind.

It is impossible to simplify the task of finding the right opportunity for you and your company. On the bright side, if it were easy, few opportunities would exist! Consider the following important competitive issues that may affect the ultimate success of your business concept (Michael Porter, 1980).

- How intense is the competition for your product?

  Consider: How often do competitors get involved in price wars? Are there corporate or personal power struggles in the industry? Are margins razor thin?

- Can other products be substituted for your product?

  Consider: If you're producing honey, for example, don't forget that you are not just competing with other brands of honey. You are also competing with peanut butter (for toast) and sugar (for tea and coffee).

- How easy is it for other companies to get into your market?

  Consider: If your potential competitors have to build an expensive plant to get into the market, they may be less likely to threaten your existing market share.

- How much bargaining power do your customers and suppliers hold?

  Consider: Who has the upper hand in business negotiations? The basic rule of thumb is that negotiating power (for pricing, shipping terms, etc.) goes to the biggest party. This isn't always so, especially in cases where small companies supply unique products that larger companies find difficult to produce or process in large volumes. Also, don't forget that if your business sector has only a small handful of suppliers, they may wield considerable power in raising their prices (your input costs).

Case Study: The Alberta Elderberry Value Chain

Market Review

Bill went home from his meeting with Wendy and Peter thinking more deeply about growing elderberries and wanting to know more about the market for this obscure berry. He turned on his computer, went to his favourite search engine (http://www.google.com) and soon enough, he found Karen, a consultant who had done a study on elderberry market opportunities in the United States. Bill copied her e-mail address and sent a note asking if she could provide the group with information.

It was the next day that Bill received an e-mail reply stating that the consultant could share some general information over the phone, but that any additional information would not be free of charge. After about a week or so, Bill and Wendy decided they would engage the consultant, budgeting $3,000 between them to partially fund the work. Peter was also interested and agreed to contribute $3,000. With their $6,000, the consultant agreed to put one week of her time into the project to produce some basic market data and insights. The consultant told them up front that $6,000 would not fund a detailed study.

In drafting a brief contract with the consultant, they all firmly agreed on what was needed. First of all, they did not need to know anything about the production of elderberries. What they really needed to focus on was the market:

- *where would the processor have most success in selling the product*
- *the demand for elderberry spreads and drinks locally and in key regions of North America*
- *what products compete with elderberry spreads and beverages*
- *a brief summary of retail, restaurant and institutional markets*
- *interested buyers and their contact information*
- *a brief look at trends and future scenarios*

When the consultant's report came back one month later, Bill, Wendy and Peter were generally pleased with the brief, informal report. They realized they could have tried to do this work themselves; however, engaging a professional provided them with early knowledge of buyers, contacts and insights into the retail and food service markets that would have taken years to glean. They also realized that by all putting forward some money, the group had demonstrated a level of commitment to developing a value chain.

Page 19: Step 1

Once you have suitably evaluated the market and determined that success is probable, it is time to look at the way you currently conduct your business to determine whether a value chain approach makes sense.

Step 2: Review Strategy

Your business strategy can be considered the way you attempt to separate or differentiate yourself from your competitors. You may aim to be the lowest-cost supplier or make a product that is unique and relatively expensive. A business strategy will also address more complex issues such as your approach to research and development, your competitors and your existing business relationships.

A value chain may not be the right approach for you if your company works with highly proprietary information. In cases where your relations with suppliers or customers are often adversarial a first step might involve some form of conflict resolution with the potential for value chain development assessed as relations improve.

The worksheets will help you review your current strategy and evaluate whether a value chain approach is suitable for your business. If, after evaluating the market and considering your company's business strategy, you're still prepared for the journey ahead, it is time to consider the resources you have and the resources you'll need to build a value chain.

Case Study: The Alberta Elderberry Value Chain

Business Approach

Bill took a look at his farming operation and how things had changed over the years. While he was proud to be an independent producer, the idea of working with others collaboratively and over the long haul (which is what would happen if he joined forces with Wendy and Peter) was very appealing. Bill thought back thirty years in time when he cropped vegetables on a quarter section of his farm. Even when a buyer came along with an offer of a penny or two more a pound, he didn't turn away from his key customer. He always had his eyes focused on the distant horizon, despite opportunities for short-term gains.

Bill thought about his approach to business – a focus on quality, service and long-term business relationships – knowing this would make it easier to work with Wendy and Peter whom he trusted and knew had similar values and approaches. In short, Bill's business strategy and his personality were just right for a value chain approach.

Page 22: Step 2

Step 3: Assess Resources, Risks and Rewards

The third and final step in the *Evaluating Stage* is to assess your resources and identify what appears to be missing at this early stage of value chain development. Perhaps you feel you need access to a processing facility, transport trucks or production and marketing expertise. The business resources you require will fall into one of the following categories:

- financial assets (cash or access to debt and equity financing)
- physical assets (land, plant, equipment and inventory)
- human resources (knowledge, contacts and labour)

It's critical to understand what you have to offer and what you need from others as you enter into a value chain business structure. This is the last piece of information to uncover before you begin putting the chain together. You'll be using all of this information again later as you progress through the next stages of value chain development.

At this point, you may find yourself thinking more seriously about the reality of your situation. Perhaps the market opportunity appears viable and your own personal or corporate strategy seems to fit with the value chain approach, but when you think of the investment of time and money at hand, it's the right time to contemplate the risks involved.

To better manage risk, experts advise limiting the scope and size of a new value chain project, at least in the beginning. You may begin by asking yourself whether it is possible to work with your existing product and partners and simply to improve the way you work together or collaborate. Processors, for example, may develop long-term contracts with producers, while producers seek to provide processors and packers with more consistent quality output and timely deliveries. An information system may provide producers, processors and marketers with useful data to improve their operations.

When commencing with a new product or market, the obvious advice is to proceed incrementally (e.g., dedicating additional portions of your farmland or processing line annually), at least when this is possible. The advice stems not only from the risks involved in developing new products, but also the risks involved in building alliances with different links in the chain.

Finally, determine what you expect in terms of rewards for your efforts and investments. This should come in the form of stated and measurable objectives for you or your company, such as return on investment, expansion,

market security, average selling prices, etc. Once you begin planning your value chain, you will have the opportunity to share your expectations (anticipated rewards) with others to make sure that these are compatible with others in your value chain.

Page 24: Step 3

Key Success Factors in the Evaluating Stage

To simplify the task of gauging your progress, we have identified some key success factors that, if accomplished, should increase your odds of successfully scaling the value chain summit.

Key success factors are milestone achievements that tell you you're on the right track.

For the *Evaluating Stage*, they include a thorough market review, the identification of a value chain catalyst, value chain vision among business leaders, expanded knowledge of value chains, an analysis of your existing strategy, clear company goals and a list of measurable objectives. After reading about these success factors in more detail, turn to the worksheets to evaluate your progress.

♦ Careful Market Review

Reviewing a market can be like trying to hit a moving target. Not only are existing markets likely to change, but also new markets can be created with the right products. Although it's tough to get a complete picture of what's happening in a market, it's well worth the time and effort. If you can't afford the time to do the research yourself, consider hiring an expert. If that is not possible, lean on your potential value chain allies to supply pertinent information. Just remember that no one has a crystal ball and you will need to take any advice with a grain of salt.

Market data are important yet unreliable in predicting the future. What makes it important is that the process of reviewing data allows you to develop knowledge of the market. In order to test your notions or assumptions, you will need to review some market information and, where possible, seek opinions of individuals familiar with the market. You can also use your information in projecting potential demand and revenues. You needn't hire a marketing guru, although industry expertise is important. The objective is to test the waters before jumping in.

♦ Value Chain "Catalyst"

Whoever champions your prospective value chain will be an essential catalyst in the development process (i.e., they'll get things going). Your value chain catalyst, whether a producer, processor or marketer, will have a vision for your value chain: a big picture perspective of goals and how companies can cooperate for mutual benefit. Without a catalyst, it will be difficult or impossible to get a value chain off the ground.

♦ Leadership Vision

If not a president or a CEO, your catalyst nonetheless should be a leader who can gain buy-in from senior management. In the early stages of development, business leaders (that includes farmers) must see value chains as a viable and favourable approach to business. A value chain is, first and foremost, a business strategy and therefore it requires enthusiastic support from both strategic managers (to ensure ongoing support) and operations managers (to ensure smooth implementation).

♦ Value Chain Knowledge

While the value chain concept is fairly simple, it's the *getting there* that can be tough. Here it is important to understand why real-life value chains have been formed, how they operate, the challenges encountered and the lessons learned. Case study examples provide deeper understanding of the concepts (visit www.agfoodcouncil.com/serve/chainindex.html).

♦ Strategic Analysis

Before you move ahead with a value chain, you need to know where your company stands in relation to its business environment, and generally where you want to go. This means sitting down with your key decision makers and formulating a strategy for the next few years. There is space in the worksheets to write down your strategy. You will likely want to update this on a continuing basis.

There are many tools for strategy development. A common strategic planning tool is a SWOT analysis: an assessment of internal Strengths and Weaknesses and external Opportunities and Threats. Larger organizations tend to get outside help in developing a strategy. This is useful when you involve a lot of people in the strategic planning process, or when you need some fresh ideas or professional guidance to stimulate your thinking.

The main thing is that you assess your situation in an honest, comprehensive way, and develop practical plans that will guide your company into the desired future. In completing your strategic analysis, you should address

basic questions such as: Where are we now? Where do we want to go? How can we get there? Why is a value chain needed to get there? Who might be the members of the chain?

♦ Clear Company Goals

As a result of your strategic analysis, you should have a clear set of goals for your company – some of which might be achieved through a value chain initiative, and some that might require other methods. If you have a lot of goals, you'll need to decide which few are the most important. For example, if your goals are to increase cash flow and increase market share in the short term, which of these will take priority?

Having a clear understanding of what your company needs is a critical requirement prior to negotiating with value chain partners. Don't worry about value chain goals that involve external allies or partners until you know what your own company wants to achieve.

♦ Measurable Objectives

Goals need to be translated into measures or objectives you can put a number to. Objectives are often based on growth targets, but they can also reflect your company's desire to retain a certain level of business in a market that is starting to erode. Specific measures depend entirely on your company's current situation and the market opportunity you intend to pursue. You should have a solid sense of what returns you require from the value chain to be satisfied with your investment of time and money.

Measurable objectives help you identify the point when a value chain enterprise would be considered a success for your enterprise. They also help you recognize the point when you may decide to walk away or look for other opportunities. Measurable objectives will be a useful reference as you progress through the *Planning* and *Managing Stages* of value chain development.

Stage Two: Planning

Once you've decided that a value chain makes strategic sense for your company, it's time to design its foundations. Careful planning can save a lot of time and money in the long run. The *Planning Stage* consists of selecting and approaching other companies you would like in your value chain, building relationships between organizations and gaining agreement on a clear set of value chain goals and measures of success.

Activities in the Planning Stage

- **Select Partners**
- **Build Relationships**
- **Agree on Goals and Measures**

Step 1: Select Partners

At the end of the *Evaluating Stage* you assessed your resources and capabilities in relation to a market opportunity. The financial, physical and human resources you lack will need to be supplemented by other members of the value chain. These resources become your list of criteria as you search for and select value chain partners. (Resources, such as contract work or rental equipment may be maintained cost-effectively outside the chain.)

Once you have developed a list of potential partners, you can shorten that list by evaluating the following elements:

- their competence and ability to supplement what you and others have to offer and how pertinent that is to the needs of the value chain
- how much *they* might benefit from being part of the value chain (helping you gauge their expected commitment to its success)
- their ability to co-operate fully in value chain activities.

Once you've short listed the companies that might fulfill your requirements, your initial contact with them should be tentative. You'll want to leave your options open in the beginning, reserving full commitment until you know your potential partner a little better. Be sure to withhold any sensitive information that might allow them to become your competitor if they choose not to become your ally. It is probably best to delay detailed contracts until you've reached a solid verbal understanding with their key decision makers.

If you're already involved in a productive alliance with other companies or farmers, you can probably proceed with greater confidence in forging a stronger value chain. You'll be able to build on the existing relationships and will likely have a better understanding of the prospective partners' true capabilities.

✎🕮 Page 26: Step 1

Step 2: Build Relationships

While the business case may drive a value chain, personal relationships can make or break its long-term success. Even the most "bullet-proof" business case won't stand up to enduring interpersonal problems. Value chains need a foundation of co-operation, trust and mutual respect to thrive.

As in other relationships, value chain relationships can be nurtured by providing recreational and social opportunities for business partners to interact and get to know each other better. The most successful value chains allow opportunities for partners to socialize and interact outside of the day-to-day business schedule. Common ways of building a positive rapport include retreats, joint social events (usually around meals) and work co-location where members of different enterprises work side-by-side to build better rapport and goodwill.

✎🕮 Page 31: Step 2

Step 3: Agree on Goals and Measures

Reaching agreement with your partners on the ultimate goal(s) for the value chain is an essential part of the *Planning Stage*. For example, value chain decision makers may see a long-term expansion in market share as the key goal, or perhaps a shift towards value-added, premium products. Being explicit with your goals and sharing them with potential chain partners is a way of preventing a painful misunderstanding down the road. Real world examples reveal that patience and discipline are at the root of successful alliance building and value chain development.

Regardless of the goals envisioned when you first contacted each other, you'll need to ensure full support for those goals before you move ahead. In most cases this will be confirmed in writing, but what you're really after is wholehearted commitment. If you can't reach agreement on the ultimate purpose for the value chain, this is the time to adapt your goals and renegotiate or possibly walk away and consider other business partners.

Once you confirm agreement on the overall goals, convert them into specific measures of success by creating a shared list of value chain objectives. Objectives can be looked at as what has to be achieved to reach your goals. For example, it may be to expand existing market channels and increase production capacity (moving towards the goal of market share growth); or to overcome technical hurdles and expand research and development work (shifting, for example, towards the goal of value-added production). Decide how and how often your value chain objectives will be reviewed, and agree with your partner(s) on what will happen if objectives are not met.

Case Study: Alberta Elderberry Value Chain Planning

Bill thought about what he would have to do to join with Wendy and Peter as an elderberry producer. Bill knew very little about berry production. Fortunately, Wendy would be there to help him in the beginning. He would have to determine what equipment he could share or rent from Wendy and what he would have to purchase. While he was making a list, he began thinking about the plants he would need to purchase to build up an orchard.

When he shared this concern with Wendy, she mentioned a couple of elderberry propagators who had some material. However, when she thought further, she realized that they would have to partner with at least one of the propagators to encourage them to rapidly increase their volumes. If Bill and Wendy expanded upward, and if new growers came onboard, they would need a large number of grafted cuttings.

Peter's concerns were different. He knew he would have to alter some of his processing equipment if he were to produce large volumes of the elderberry juice. He would have to seek out parts suppliers that unfortunately all seemed to be located in Europe.

All three shared a common concern relating to the financing of the project. Collectively, they tried to consider how they could keep the initial project small in order to minimize the risk. Peter was concerned that he may have a difficult time purchasing new equipment and then proceeding on a small scale. In this event, it would be difficult to produce enough to pay off the amount he would probably have to invest.

These concerns were brought to their meeting ground at the local coffee shop. As Bill would need three years to get to the production stage, his main concern was how much land to devote to elderberries. Peter expressed concerns about getting too big too fast and decided that he could take in Wendy's production with only a few minor modifications to his processing line. If there was an expansion opportunity, he could begin importing some elderberry concentrate and slowly grow the percentage of local product as it became available.

All three agreed that their approach would focus on the long term. Once a market was firmly established, they would grow their production at the same pace as demand for their product grew. As Bill was currently outside of the actual production base, he agreed to make a financial contribution and take an equity stake in the company the three would collectively create. Wendy was comfortable with their "start small" approach and Peter felt the limited investment required of him was acceptable. At this point, the three began to think about their missing link in the chain: marketing.

It took time for Peter to find a food broker willing to take an equity stake in the company in return for promoting and distributing the elderberry beverage to retailers. When Bill suggested that he was not keen to lose some ownership and control of the marketing of the product, Peter asked him if he would rather have a bit of something or all of nothing.

Page 32: Step 3

With your partners selected, onboard and committed to common goals, you're ready to launch a pilot project to test out the value chain approach. The pilot project is undertaken in the third and final stage of value chain development – the *Managing Stage*. Before we begin discussing this third and final stage, we briefly consider some success factors in the *Planning Stage*.

Key Success Factors in the Planning Stage

♦ Careful Partner Selection

Surveys show that selecting the right partners is considered by many CEOs to be *the* most important factor in establishing successful alliances. Yet many companies continue to ally with the closest interested partner and pay the price later.

So how do you find the right partner? It's mostly a matter of knowing what you are looking for. This underlines the importance of identifying your needs, as well as what you have to offer to a value chain. The best fit between

organizations involves interdependence: they can achieve their goals, which in turn helps you achieve yours. Equally important is the fit between you and your potential chain partners in terms of your approach to business: your strategy, the way you work (speed, expectations, etc.) and your outlook for the future.

Of course in addition to knowing your criteria for selecting partners, you also need to be diligent in evaluating their capabilities and reliability. Carefully check their reputation, economic viability and cultural compatibility and determine the fit with your organization.

♦ Commitment From All

Another key aspect of planning and managing a value chain is getting the sustained commitment of partners. This takes hard work and money both of which can be difficult to acquire in the time-pressured, financially constrained business world. Fortunately, there are opportunities for assistance through funding and facilitation groups. An upfront personal or corporate commitment to make the chain work is an important criterion for success.

♦ Cohesion/Interdependence

What is the glue that holds value chain partners together? Is it a shared vision, economic incentives or perhaps personalities? While there are a number of reasons why a chain may remain intact, we know that value chain cohesion (i.e., the bonds that hold a chain together) is an important element.

Value chain cohesion is a product of many factors, namely decision-making processes, interdependence, compatible goals and equitable returns. These factors require a more detailed description.

- Decision-making processes.

  Consider: Who bears responsibility for making decisions and which companies and individuals are affected by those decisions? Is the decision-making process fair to all concerned? Could it lead to conflict?

- Interdependence.

  Consider: How much do members of the chain need each other? Do any companies maintain dominance that could undermine the chain? If your partners really don't need you, can you count on their support in the future?

- Compatible goals.

  Consider: Are there shared or complementary goals amongst all partners? If not, could this lead to the dissolution of the value chain?

- Equitable returns.

  Consider: Do value chain participants feel that the chain serves their company equitably? (Note: equitable does not mean equal; it means a return from the chain relative to the investment into the chain.)

♦ A Dedicated Champion and Chain Manager

At some point in the planning process, companies should each assign a champion who oversees the development of the value chain for their organization. If there is a problem that can't be resolved at the management or operational level, respective champions can be called upon to nudge things back on track. If support wavers, champions go to bat to get the resources needed. Champions are the guardians and promoters, inspiring others to make the value chain a success.

Collectively, companies involved in a value chain may select an individual to act as a chain manager because value chains take on a life of their own with unique managerial requirements focused on monitoring progress and chain communication, collaboration and facilitation.

Once a chain becomes functional, some sectors of the agriculture and food industry may benefit by having a broker operate as a "chain manager." A broker's knowledge of customers and consumers and their wealth of contacts in the industry would ensure that a market-focus is maintained. It is important that the value chain manager be viewed as impartial, trustworthy and effective at communicating, collaborating and facilitating chain activities. Within the chain, a shift from information hoarding to information sharing with the chain manager will be required.

♦ Collaborative Planning Sessions

It's hard to plan a value chain in your spare time. Day-to-day pressures make it difficult to find the opportunity for meaningful dialogue between prospective partners. Circulating a draft plan for others to review speeds up the process, but can lead to problems in the implementation stage. Chain partners need to be involved in the *Planning Stage* if they are expected to be deeply committed when the time comes to take action. One answer is to schedule time for a planning session.

Collaborative planning sessions should last a day or two, and are conducted as a retreat – preferably away from the workplace, and on neutral ground. Key company representatives work through an agenda to reach consensus on critical issues and plans before the value chain is fully underway. Sessions can also be arranged in earlier and later stages to jointly assess opportunities, sort

out operational problems, revise strategies or enhance working relationships. No two sessions are alike.

Collaborative planning sessions are a critical step in the *Planning Stage* of value chain development. At these sessions, you will have the opportunity to consider your progress in developing your value chain (page 32).

♦ Expert Assistance in Facilitation

It's difficult to conduct a collaborative planning session without the help of a neutral facilitator or "third party". An external facilitator has the advantage of being perceived by all participants as working for the value chain as a whole, rather than for any single participant. Since facilitators are seen to have no stake in the outcome of the session, they have the license to guide the session in ways that none of the participants can. Where your facilitator has knowledge of value chains, they can also provide timely assistance by suggesting ways to build your value chain while it's still in the formative stages. It's good practice to split facilitation fees amongst the participating firms.

Experience tells us that expert assistance can be valuable in all three stages of value chain development. However, in the *Planning Stage*, it is particularly useful to have advice from someone who "has been there before" as a way of avoiding future repair costs.

♦ Compelling Value Chain Goals

One of the key outcomes of the *Planning Stage* is a set of inspiring goals to motivate and guide everyone involved. Value chain goals have to make sense to everyone and be supported by clearly expressed objectives and action plans. To illustrate: a value chain goal may be to recapture market share lost over the years to lower-priced imports. As objectives support goals, in this case, one objective may be to improve service in a particular region in order to claw back customers. Action plans are then aimed at improving product and service quality with everyone in the value chain playing a specific role.

Goals and objectives should be practical and easy to understand and have buy-in from all parties. Constructing a clear set of goals is only the first challenge. The second is to communicate them in ways that will convey the value chain vision to everyone who participates in its success. You'll also need goals when talking with value chain customers, suppliers, new partners and perhaps even the media.

Stage Three: Managing

Your value chain approach has been communicated to all the different enterprises involved and there is good buy-in from key business leaders. The market looks promising, your partners are in place and you're set to launch. While it may seem to be the right moment to proceed full speed ahead, the wisest first step in the *Managing Stage* is to "test the waters" with a pilot project.

A pilot project allows you to commit yourself in stages to minimize risks and work out the bugs while proceeding on a small scale. Try the concept in miniature and test it. If it still looks promising, you can take what you've learned and jump in all the way with much greater confidence. This may mean picking one specific product line (e.g., a milled oat cereal, a specialty meat product, etc.) or one specific market, such as a small, high-end retail shop. It may also mean finding a new way to work together. Think about what portion of your business you might be able to detach from the rest as an independent test case. Build your pilot project around that.

The *Managing Stage* can be broken down into three major activities: piloting the value chain project, integrating systems and continuing to build and adapt. Even when running full-scale, the value chain will require ongoing "care and nurturing" to stay alive and thrive. For maximum benefit from your value chain, you and your partners will need to adapt as the situation evolves and continue to search for ways to make your interactions more effective. Managing your value chain will prove to be an ongoing challenge as markets, companies and people continuously change.

Activities in the Managing Stage

- **Launch Pilot Project**
- **Intergrate Systems**
- **Build and Adapt**

Step 1: Launch Pilot Project

A pilot project is simply a small, "trial-size" version of the full potential value chain. It typically involves collaboration between companies on one specific aspect of a business, a product line or a limited-duration project.

While it can take many forms, a good pilot project should:

- demonstrate the potential of larger-scale collaboration
- allow all parties to say "no thanks" to future projects
- provide clear measures of success, or lack thereof, based on quantified objectives (e.g. percent increase/ decrease, revenue, etc.)

You'll need some baseline measures (e.g., current sales, return on investment, product life cycle time, etc.) before you start the pilot. Otherwise, how will you be able to judge whether or not it has made a positive difference to your business? In addition to regularly scheduled reviews, you and your partners should agree upon an appropriate time to conduct a thorough evaluation of the pilot's success. Even if some project objectives aren't met, lessons learned from the pilot might still convince you to move ahead with a value chain in modified form. Conducting a pilot allows you to make an educated choice and fine-tune your approach.

Page 35: Step 1

Step 2: Integrate Systems

Often there are multiple connections between value chain partners. The connecting points between partners – the "interfaces" – hold the key to unlocking the benefits of a value chain. The closer and tighter they are, the more you'll be able to take advantage of potential cost reductions, time savings, quality improvements and so on.

You'll also enhance your ability to change and adapt to suit the market. Working cooperatively, you can share data and decision-making to the point where transactions between value chain partners are seamless – almost as if they were within the same company (the "extended enterprise" idea was mentioned on page 1).

In this way, bottlenecks and obstructions are removed, allowing the flow of goods and services to become more streamlined. Just-in-time and just-the-right-amount deliveries, the unrealized goals of many organizations, are much more likely to be achieved within a well-communicating, internally-informed value chain. (This may involve implementing a communication strategies plan).

Through effective integration, producers can respond quickly to the shifting requirements of processors and retailers, for example. Inventory requirements can be anticipated and adjusted without a lot of paperwork or time lag. Invoicing and payments can occur automatically. Integrating the value chain enterprise through synchronized systems is much less expensive than it used to be, due to advances in computer technologies. This makes the potential payoff even greater.

Page 36: Step 2

Step 3: Build and Adapt

A value chain will never remain static. After all, value chains are based on market opportunities and therefore are subject to the continually shifting consumer and customer demands. Your enterprise needs to shift with them. No matter how well a value chain is operating, there is always room for experimentation and advancement. Remain focused on emerging opportunities, and be prepared to seize them as they arise. Fortunately, for a value chain, there are many more eyes on the horizon scouting for opportunities.

As value chains mature and commitment builds, working relationships become closer and more collaborative. Individual companies focus more on their area of expertise, leaving other tasks to value chain partners who possess different skills and expertise. Being able to adapt, evolve rapidly and capitalize on opportunities are some factors that characterize successful value chains. Work with your partners to lead your value chain enterprise into the future.

Page 37: Step 3

Key Success Factors in the Managing Stage

♦ Honest Pilot Evaluation

Pilot projects need clear, quantifiable measures (before, during and after the pilot), to properly assess the viability of a value chain enterprise. Pilots often serve the dual purpose of both initiating a value chain and testing the viability of its future.

It may be difficult to accept defeat if the pilot project fails. However, you will have an opportunity to assess either the salvage value of your new business relationships or positive development in the areas of production and marketing. Even if a pilot project doesn't meet the stated objectives, the process is unlikely to be considered a loss of time or money. Apart from risk management, everyone will have learned from the experience, and perhaps a new and better type of value chain can rise from what remains intact. Partners will know each other better, giving any new collaboration an even greater chance of success.

♦ Increasing Cohesion

Once the value chain is underway, there's still plenty that can be done to enhance it. Create opportunities and mechanisms that strengthen the ties between partner companies and reinforce ongoing working relationships. How can you do that? Schedule collaborative sessions, celebrate the achievement of milestones, co-locate or exchange staff and, most importantly, work with your partners to introduce methods for continuous improvement.

♦ Opportunities to Learn

Opportunities for learning abound in value chain relationships, but the full potential is rarely realized. The most effective value chains encourage participants to exchange ideas freely, trade best practices and experiment (to some degree) so they can continually find better ways to interact. Take the opportunity to benefit from an outsider's perspective on how effective you really are. Always remember that there's a better way!

♦ Process for Ongoing Dialogue

Few business alliances are formally closed out. Most die gradually from lack of attention. Surviving value chains realize their potential through ongoing discussions with partners. Challenge each other; challenge the value chain itself. Most importantly, keep the lines of communication open. This sounds obvious, but it sometimes takes a concerted effort to ensure that a chain remains vibrant. Plan a formal approach to ensure that dialogue is practical and relevant and keeps the value chain focused on continuous learning and change.

♦ Commitment From the Top

When it comes down to the crunch, or what are sometimes called "moments of truth," value chains rely on the support of high-level decision makers. Participants will be looking for signals from the top. Business leaders need to make the value chain a priority and demonstrate their commitment with money, time or other resources. This is the final, and perhaps most important success factor of all.

Case Study: Alberta Elderberry Value Chain

Summary

Seven years had passed by since Bill, Wendy and Peter first met to talk about their elderberry drink value chain idea. It took years longer than what any of them had imagined; however, their goals had generally been achieved (even though they were revised more than once).

In the production area, Bill was now the biggest elderberry grower in the province. He along with 11 other berry growers supplied enough berries for Peter to keep a dedicated processing line in operation at nearly full capacity. Each new grower that entered the chain received some start-up capital that was repaid with their initial shipments once their orchards were established.

Though none of the growers made as much money as they had initially hoped for, they were at least happy to have a secure and steady market. Prices did fluctuate; however a pricing formula was put in place to provide more stability and transparency in what the growers received for payment. This stability and the contractual relationship the growers maintained with Peter was very useful when growers negotiated with the local bank for operating and investment capital.

One year, when prices in Europe skyrocketed, a couple of growers sold their entire crop to German buyers. As a result, they were not allowed to return to the elderberry value chain. Wendy knew that growing the industry required a steady supply and if they allowed these growers back, they would have the same problem in the future. Wendy pointed out to the other growers how another province's elderberry industry collapsed when producers ignored local processors in favour of, yet again, high prices in Europe.

Peter faced competition from other fruit beverage processors, but his product was unique enough to carve out a secure, albeit small share of the overall fruit beverage market. He faced many processing challenges over the years, but found that in working closely with the growers, the problems were remedied much more quickly than was previously the case. Also, Peter's food safety program in his plant (a HACCP or Hazard Analysis Critical Control Point system) was a powerful selling tool for the product at the retail level. Even the berry growers developed a HACCP-based system to maintain high food safety standards.

The producers and processor worked with two different distributors in the first two years before settling with one that seemed to fit more with their value chain approach. Now, there was far better information flow between the distributor and the rest of the chain. In fact, with better market intelligence, the producer group has begun to grow black currants which have been identified as a high-value niche product for the health-conscious consumers.

Wrap Up

You have now read through the three stages of value chain development: evaluating, planning and managing. You may arrive at this point having completed exercises in the accompanying worksheets, and be up and running. If so, remember to keep reviewing your value chain in terms of the success factors outlined in the *Managing Stage.*

Collaborative work with other companies will provide insights into markets, industries and strategic relationships. You may become more adept at reading the market and responding to it. You may end up with a fully functioning value chain or simply develop better working relationships with new business allies. As you gain new insights and abilities to thrive in the new economy, keep in mind this quote:

"It is not the strongest of the species that survives, nor the most intelligent, but the ones most responsive to change." – Charles Darwin

Value Chain Development Worksheets

The Value Chain Development Handbook presented a three-stage process of evaluating, planning and managing a value chain. These worksheets were developed to assist you in working through the three-stage process while documenting your thoughts and progress in working towards a value chain pilot project. As noted earlier, "pilot project" refers to a small scale version of a value chain that can be scaled up over time.

As you work through both the Handbook and worksheets, keep in mind that there are many ways to achieve your goals. Use this publication as a guide and make choices on what is appropriate for you and your value chain partners.

Stage One: Evaluating

As mentioned in the Handbook, value chains develop when businesses collaborate to achieve a more desirable position in the marketplace. Evaluating, the first stage of developing a value chain, involves clarifying an idea, analyzing the market, and identifying required resources. Businesses that already have a product and perhaps a well-developed market are subjected to less risk than those pursuing new products and markets. In these cases, you may simply assess and revise the way you work with other enterprises as part of your value chain project. While it is preferable to apply a value chain approach to products and markets you already have knowledge of, this may not always be possible. While this Workbook is more focused on the process of forming a value chain, we have provided some material to help you begin evaluating a new product or market.

Step 1: Evaluate the Idea and the Market

People often approach value chains in a fog. With many different value chain definitions out there, along with a dose of magazine hype, it is not surprising that the fog has not lifted. Regardless, everything begins with an idea. Take a few moments to clarify your idea for yourself and others who might ultimately share your enthusiasm. We suggest you focus your idea on a product, a market, potential chain partners and new ways of working together.

1. Your business idea

Your Product:

_____

Your Market(s):

_____

Potential partners:

_____

Ideas on working together (this may be the only thing you do differently for your pilot project):

_____

_____

Other thoughts:

_____

_____

_____

_____

There are a number of reasons why entrepreneurs choose to pursue a new product or market or to use a value chain approach in addressing a problem or in seizing an opportunity. Below is a list of problems or opportunities that could motivate the development of a value chain business strategy. Are any of these motivating you to consider this business strategy? Are there others?

2. What problems or opportunities exist?

- ☐ Prices can't support our industry.
- ☐ Competition appears to be based on price, not quality.
- ☐ The future doesn't look bright for commodity-oriented producers.
- ☐ We can't find a market for our product.
- ☐ Our input costs are rising and margins are eroding.
- ☐ Relations with buyers need improvement.
- ☐ We are operating in an over-supplied market.
- ☐ Competition is growing increasingly fierce (in terms of price, quality or service).
- ☐ There is little trust in our industry.
- ☐ It takes us too long to respond to shifts in consumer demand because of our institutions or attitudes.
- ☐ With our sector as fragmented as it is, we are all paying a premium for packaging, transport and handling.
- ☐ There appear to be opportunities to expand or consolidate.
- ☐ Consumers seem to be demanding new products like nutraceuticals, organic products, and convenient heat-and-serve meals.
- ☐ There are opportunities here to produce the safest food in the world.
- ☐ There also are opportunities to lower our costs and increase security in the market by working with others (i.e., producers, processors and marketers).
- ☐ We need to secure a stable market.
- ☐ We need to respond better to food safety concerns by tracking products through the food chain (i.e., production, processing, packing and marketing stages).

Are there other problems (bottlenecks, limitations, etc,) or opportunities?

_____

_____

_____

3. Before commencing with any business opportunity, it is always wise to seek out industry and market information to improve your chances of making the right business decisions. The points below direct you towards key competitive considerations in entering any market.

a. How intense is the competition for your product?

Consider: How often do competitors get involved in price wars? Are there corporate or personal power struggles in the industry? Are margins razor thin? Is foreign competition an existing or potential threat?

Your thoughts: _____

_____

_____

_____

b. Can other products be substituted for your product?

Consider: While many producers and processors are convinced that their product is the best, consumers may turn to purchasing other products. Why? Is it because retailers have more reliable suppliers or are competing products lower priced or more effectively branded? Are there many products that can be substituted for yours?

Your thoughts: _____

_____

_____

_____

c. How easy is it for other companies to get into your market?

Consider: If there are low costs involved in entering your market, you should expect plenty of competitors. If there are significant costs and a high degree of technical knowledge required to enter the market (i.e., entry barriers), there will be fewer competitors. Unfortunately, with fewer competitors, the stakes may be higher because there is likely to be more to win (and lose).

Your thoughts: _____

_____

_____

_____

d. How much bargaining power do your customers and suppliers hold?

Consider: In a value chain structure, you can work to reduce tensions with suppliers and customers through alliance formation. However, at present, you may find that powerful customers or suppliers inhibit your opportunities.

Your thoughts: _____

_____

_____

_____

In developing new products and markets, considerable work is required. In many cases, expert advice is highly recommended. While we have provided a few considerations to assist in evaluating your idea and the market and industry, we encourage you to consult other documents and marketing experts where possible.

Some information on market research resources include:

- *Market Research – Help and Where to Find It.* 1995. Agdex FS848-4 (call publications line at 1-800-292-5697)
- On the Internet: www.agric.gov.ab.ca/food/process/newbusiness/mktresearch.html
- Alberta Agriculture, Food and Rural Development – Toll free line: 1-866-882-7677

Step 2: Review Strategy

Reviewing the way you currently conduct your business (i.e., your business strategy) and then comparing it to the proposed value chain approach is another step in the evaluating stage. The questions below should assist you in identifying your options (how you might achieve your value chain goals), understanding the barriers, and considering whether a value chain approach is right for you.

1. **It comes as no surprise that value chains are focused on creating value and, furthermore, that value is ultimately created in the market. In focusing on the market, consider what business strategist Michael Porter offers as three generic strategies to compete. What strategy best describes your current approach, and which best describes your potential value chain approach?**

   ☐ Differentiation: ensure that your product or service is different from what the competition offers.

   ☐ Specialization: create a narrow product and customer focus and aim for premium prices.

   ☐ Least Cost: ensure that through large-scale operations and technology you are the least cost producer/processor in the market.

   Your thoughts:

   _____

   _____

   _____

   _____

2. **If you have not already done so, take some time to consider where your operation or company is headed overall:**

   a. Where do you want your business to go in the future?

   _____

   _____

   _____

   b. Can you achieve this the way you currently operate?

   _____

   _____

   _____

   c. What are your business's current strengths and weaknesses that are important in achieving your future vision?

   _____

   _____

   _____

   d. Which of your weaknesses can be corrected on your own? Which might be strengthened by a collaborative relationship with other companies?

   _____

   _____

   _____

3. **What are some of the basic objectives of your value chain ideas?**

- ☐ Share value chain costs and risks.
- ☐ Combine financial resources or equipment.
- ☐ Consolidate production in building more favourable long-term contracts.
- ☐ Build a food-tracking system.
- ☐ Share information across the chain with a focus on channeling consumer-end information to producers.
- ☐ Establish and adhere to standards requested by buyers/customers.
- ☐ Collaborate with suppliers.

Others:

_____

_____

_____

4. **What barriers exist for the achievement of these goals?**

- ☐ Lacking capital.
- ☐ Limited trust **between** producers, processors and marketers.
- ☐ Limited trust **within** specific groups in the chain.
- ☐ Lack of communication and understanding between segments of the industry (e.g., producers and packers).
- ☐ Culture of independence versus interdependence.

Others:

_____

_____

_____

5. **The following questions address business and personal factors that are important in evaluating the value chain option.**

- Do you currently operate in a collaborative manner, sharing information with industry colleagues?
  yes ☐ no ☐
- Do you prefer long term contracting opportunities to the spot market?
  yes ☐ no ☐
- Are you able to work on a long term solution that may require considerable input of time, effort and financial resources?
  yes ☐ no ☐
- Do you respect and understand the challenges other sectors of the food and agriculture economy are faced with (e.g., producers, processors or marketers)?
  yes ☐ no ☐

If you tended to respond to these questions with a "yes," you could consider yourself more inclined to adapt well in a value chain alliance. If not, it may be time to consider approaches other than a value chain strategy.

Step 3: Assess Resources, Risks and Rewards

1. **Using the worksheet below, take stock of the resources and capabilities you currently have, and those that would need to be obtained from other businesses through a value chain alliance.**

Resources	Your Business	Required from Partners
Financial Resources ■ cash ■ debt or equity capital ■ investor contacts		
Physical Resources ■ facilities ■ equipment ■ technology		
Human Resources ■ talent/expertise ■ access to labour ■ management strength		
Intangible Resources ■ reputation ■ innovativeness ■ client base ■ connections		

2. **Considering resources and capabilities that you need to obtain through the value chain alliance, can you identify potential partners?**

3. **Are there strategies available to you to manage risk such as:**

- ☐ Limit the scope of your pilot project
- ☐ Pursue contractual agreements
- ☐ Sticking to products you currently produce and markets you are familiar with

Other:

_____

_____

4. **Take a moment to consider all you have worked on in this first stage of value chain development. As this can lead to a *go* or *no go* decision for your prospective value chain, it is a critical step in the development process. Reflect on what you believe would be the pros and cons and the risks and rewards.**

Your thoughts:

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

Stage One: Key Success Factors Check List

Review the key success factors in Stage One (page 8), determine which are appropriate undertakings for your value chain, and record your progress below.

- ☐ Careful Market Review
- ☐ Value Chain "Catalyst"
- ☐ Leadership Vision
- ☐ Value Chain Knowledge
- ☐ Strategic Analysis
- ☐ Clear Company Goals
- ☐ Measurable Objectives

Other items you want to consider in the Evaluating Stage:

Stage Two: Planning

If you've evaluated both the market and your value chain approach and decided to proceed further, it is time to enter the planning stage of your value chain pilot project. As noted in the Handbook, the *Planning Stage* consists of selecting and approaching other companies you would like to be in your value chain, building relationships between organizations and gaining agreement on a clear set of value chain goals and measures of success.

Step 1: Select Partners

The value chain catalyst (leader) plays an important role in this step by contacting and assembling value chain partners. Individual meetings with potential value chain participants might help provide background information in helping you select partners; however, group meetings may be more useful in evaluating the dynamics of a group and the "fit" of individual enterprises in a value chain approach. The purpose of these meetings is to gauge interest and compatibility while giving only general information.

Initially, the focus will be on creating clarity on the product (or service) and the market potential. Discussions should later focus on value chains as a strategy. Here you may find a facilitator and some advice on value chain formation to be useful.

1. **Your group may find it helpful to address the following questions. For individuals who have been following through the Value Chain Handbook, there will be repetition, however, in working through these questions with potential partners, new thoughts should emerge.**

   a. What are your major opportunities?

   b. What are the key limitations or obstacles facing your business and/or industry?

c. What factors or issues have the biggest impact on your ability to operate effectively/efficiently?

d. What factors or issues might have the most dramatic benefit to your customers?

e. Does the value chain concept represent a benefit to your customers?

f. Does the concept interest you? Are you willing to put in some effort and time to help develop it?

g. What strategies do the groups at the table have interest in? Is there a consensus that partners can work towards?

h. Your thoughts and concerns.

Through the discussion process you can further define what needs to be done, benefits of the chain to partners, and other relevant information. The information from these meetings might help develop a short list of partners, if necessary, to be brought forward to the next meeting of chain partners.

2. **Now take a closer look at the potential partner that you are considering. Here are a few questions to think about when considering who would be ideal value chain participants. The more "yes" responses, the better the opportunity to create effective horizontal alliances (e.g., producers working together) and vertical alliances (e.g., producers working with processors and marketers).**

   a. Compatibility

   - Do you believe your business strategies are complementary (i.e., work well together). yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

   - Are your business cultures compatible? yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

   - Is there good chemistry (rapport) between key company representatives? yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

   b. Interdependence

   - Are there overlapping areas of interest in terms of products, research, markets, etc? yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

   - Do potential value chain partners all offer something of value? yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

   - Are value chain partners interdependent? yes ☐ no ☐

   Your thoughts: _____

   _____

   _____

- Do business strengths from each group help (or complement) the others? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Will there be an opportunity to learn from each other? yes ☐ no ☐

Your thoughts: _____

_____

_____

c. Reliability

- Are they competently managed? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Are partners able to deliver in terms of quality and consistency? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Are they financially healthy? yes ☐ no ☐

Your thoughts: _____

_____

_____

d. Reputation and Trust

- Are partners trustworthy, maintaining a reputation of high integrity? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Will their public image improve your image? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Have they partnered before? If so, were those relationships successful? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Can you afford the additional time to build relationships? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Are potential partners involved in a conflicting alliance (e.g., with your competitors?) yes ☐ no ☐

Your thoughts: _____

_____

_____

- Are there potentially hidden agendas behind forming the value chain alliance? (e.g., trade secrets/technology to be stolen, free training then no follow-through, etc.) yes ☐ no ☐

Your thoughts: _____

_____

_____

e. Risk Factors

- Are there any perceived risks affecting the success of the alliance? yes ☐ no ☐

Your thoughts: _____

_____

_____

- Are there any perceived risks affecting your current core business? yes ☐ no ☐

Your thoughts: _____

_____

_____

Step 2: Build Relationships

The planning process is important for developing the collaborative business relationships that are needed to successfully operate in a value chain relationship. Lack of communication, trust and respect are often sited as barriers to developing an effective value chain. How do you build a collaborative business relationship when businesses have traditionally worked in a competitive business environment?

Trust is a key component. Trust is something that is created when we get to know and understand our business partners and, their actions become predictable. However, our actions generally reflect our values and these tend to remain fairly stable over time. For example, a person who is considerate, giving and honest is likely to be reliable because they genuinely care about how their actions impact others. For this reason, it is wise to consider and discuss the values of key members of a potential value chain.

It is also advisable to think about your business practices and those of your potential value chain partners: what values do they reflect? While business people often shy away from the "soft side" of business, individuals that maintain shared values are likely to build trust and work together more effectively and efficiently. This leads to:

- higher performance
- greater innovation and creativity
- faster problem solving and
- lower transaction costs

1. **Do your values correspond to those of your value chain partners? In the table below, begin by discussing with your group how you define each value. Next, write down an action that demonstrates your commitment to the value. For example, for honesty, you might comment on a time when a customer overpaid on a bill and you quickly returned their money. Space is provided to document responses from other value chain members. In working through the table, discuss the importance of shared values within a value chain.**

Value	Action Example (brief summary)
Honesty	Yours: Partner 1: Partner 2: Partner 3:
Fairness	Yours: Partner 1: Partner 2: Partner 3:
Consideration	Yours: Partner 1: Partner 2: Partner 3:

(continued next page)

Value	Action Example (brief summary)
Perseverance	Yours: Partner 1: Partner 2: Partner 3:
Responsiblity	Yours: Partner 1: Partner 2: Partner 3:
Other	Yours: Partner 1: Partner 2: Partner 3:
Other	Yours: Partner 1: Partner 2: Partner 3:

2. Briefly discuss the importance of these values in building trust within the chain.

Step 3: Agree on the Goals and Measures

1. Value chain planning session

Once you have considered which businesses should work together in your value chain, it is time to begin planning together. Now, a *value chain planning* (VCP) *session* can help to reach a consensus on critical items (such as goals, underlying assumptions or how you and your partners will work together) before the value chain project is fully underway. VCP sessions are a structured process to develop positive working relationships among value chain partners. These enable key members of a newly formed value chain team to understand each other's needs and expectations better.

Typically, one or two days is required to undertake a VCP session; however, a follow-up session may be required. Sessions may have five to 25 people participating in each session. Larger groups can be difficult to coordinate and may have to divide into sub-groups that share information. Time frames will vary with the size of the venture, the stage of the relationship and the number of stakeholders involved in the process. The *VCP* process needs to be planned, organized and facilitated by a competent person considered to be unbiased by all those participating. These sessions should *not* be facilitated by a value chain stakeholder.

VCP sessions typically start with discussions to achieve a consensus on goals. Once the goals are established, specific issues can then be resolved as part of the development of a master strategy and work plan. This work plan could include agreement on top priorities, commitment to provide or access resources, and how value chain partners will work together to develop a successful strategy. Where possible, the planning process should draw from the key team members' previous experiences – what worked and what did not in previous alliances and partnerships.

What are the benefits? VCP sessions unearth underlying values, assumptions, expectations, essential requirements and relationship issues at an early stage. This saves time and money later in the working relationship and has value in a number of ways. By building a foundation of mutual respect, the new team can create a shared vision so that all are committed to working in the same direction from the start.

VCP sessions improve team performance by fostering:

- **shared focus** on common goals and objectives
- **group rapport** based on mutual respect and openness
- **synergy**[1] of effort that enhances the combined individual capabilities
- **shared accountability** for results and ultimate success

VCP sessions also reduce the possibility of errors or disputes caused by misunderstandings. They provide a basis of common language and expectation so that things can be done "right" the first time. Lastly, VCP sessions can reduce adversity between stakeholders, preventing disputes and costly legal expenses should the value chain relationship break down.

The following list is a suggested agenda to assist you in planning your VCP session. You may not be able to complete the agenda and be forced to schedule another meeting. In some ways, time will be your best friend as it allows individuals time to absorb and share new ideas and knowledge of value chains. Time is also needed for individuals to determine their level of commitment to the value chain.

Suggested VCP session agenda:

a. What is the goal of the value chain? Be specific and market focused, as the market ultimately determines the success of your value chain approach.
b. What are the objectives of the different groups (e.g., producers, processors, marketers)? These objectives serve the goal; they are what you must do to successfully reach your goal.
c. What is your strategy? (e.g., differentiated products/services, specialized production or customer base, or least cost; refer back to **Stage One, Step 2** if necessary)? Note that you can adopt more than one strategy, however, aiming to be the low cost supplier while differentiating your product may not be possible.
d. What are the strengths and weaknesses of each group? This can be discussed within small groups. After completion, allow each separate group to document their work on a flip chart and share with the entire value chain group (e.g., producers present together, then processor, etc.). By discussing where groups maintain strengths and weaknesses, others stand to achieve a better understanding and respect for the challenges they face. Furthermore, different groups might be able to foresee a solution in working together.
e. What are the perceived opportunities and threats facing each group? By discussing what different parties perceive to be opportunities and threats, the entire value chain can work towards evaluating the options in structuring and organizing a value chain. Sometimes, myths may be uncovered, threats can be limited (e.g., by building a more secure marketing arrangement) and opportunities exploited.
f. What are the key issues? Issues might be problems, constraints or opportunity areas. Prioritize what needs to be dealt with first. Be honest and make sure any potential source of conflict is discussed.
g. After identifying the issues, you can begin to develop a plan for your value chain. Again, we recommend, where possible, to keep your initial plan limited in size – focus on developing a small pilot project that you can scale up over time.
h. Developing a set of measures and milestones that tell you you're on track is also important. You may decide, for example, that you want to finish a business plan for the value chain within six months, develop a letter of understanding within eight months and track sales volumes monthly. This can be accomplished in the context of a Letter/Memorandum of Understanding (L/MOU) as discussed below.

[1] Synergy refers here to the idea that exceptional results can arise when people work together; in a sense that one plus one can equal more that two.

2. Written agreements

Full legal contracts should not be developed until you can ensure that value chain partners are compatible with one another. This "getting to know each other better" can be done on the basis of a Letter/Memorandum of Understanding which outlines your broad goals and agreed upon working relationships between different enterprises or groups. It is possible to proceed into a pilot project (where risks are manageable) with a completed L/MOU. However, as value chain partners proceed, possibly working into a scaled-up value chain structure, specific requirements of a legal contract will start to emerge and the contract you sign will more accurately reflect everyone's best interests. Delaying the contract allows you to build a trusting relationship before you start discussing things like risk and cancellation clauses.

An agreement generally specifies rights and obligations, but the specific contents and format depend entirely on circumstances (i.e. risk, locale, industry, participants and strategic objectives). There is no set formula. For example, a "Letter of Intent" may or may not be legally binding. Some typical components of an L/MOU and a legally binding contract are as follows:

L/MOU, statement of principle:

- goals and objectives of the value chain initiative (measurable goals and objectives are best)
- responsibilities of the participating organizations (e.g., resources to be committed, delivery schedules, etc.)
- roles and responsibilities of key individuals or groups
- ownership and equity
- non-competition clauses
- management of the alliance (e.g., staffing, authority, organizational structure, policies, etc.)
- milestones and performance reviews

Legally binding contract:

- details of the above subjects from the L/MOU or other correspondence
- profit sharing (including how profits are calculated), bonuses, incentives
- liability and risk sharing
- protection of assets such as intellectual property
- cash flow arrangements (e.g., banking, contract payment terms)
- conflict resolution mechanisms (e.g., ADR, arbitration, mediation, etc.)
- exit terms (e.g., cancellation or dissolution clauses, buy-out clauses, etc.)

Stage Two: Key Success Factors Check List

Review the key success factors in Stage Two (page 11), determine which are appropriate undertakings for your value chain, and record your progress below.

- ☐ Careful Partner Selection
- ☐ Commitment from All
- ☐ Cohesion
- ☐ Dedicated Champion and Chain Manager
- ☐ Collaborative Planning Session
- ☐ Expert Assistance in Facilitation
- ☐ Compelling Value Chain Goals

Stage Three: Managing

The managing stage of value chain development involves launching a pilot project, integrating business systems and continuing to build and adapt your value chain. If you have followed through with Stages One and Two, you probably have developed a keener sense of how collaboration can work in your favour and how value chains can address your business goals. Again, apply the knowledge you have gained and your judgment in determining the appropriate steps for your value chain to pursue at this point. Given that no two value chain pilot projects will be the same and that you are much more aware of your own business requirements, this section is kept brief. You are encouraged to design your own approach and develop your own set of questions that will lead your pilot project in the right directions. Again, you are encouraged to seek professional support and advice.

Step 1: Launch Pilot Project

Launching a value chain, like commencing with any new business activity, involves expectations and anxiety. Keep in mind that value chains typically take a while to produce benefits and initially demand an investment of money, time and energy. This is one of the reasons why a scaled-down pilot approach is encouraged – it is less likely to consume so much time, energy and financial resources. Regardless, most case studies demonstrate that the development process takes longer than what is first anticipated, but that the benefits, for those that follow through, are worth the effort.

As you are commencing with your chain, ensure you monitor and evaluate the performance of the chain before it's too late. The major stumbling block is inadequate definition of the results expected. If clear, measurable goals have been developed when launching a value chain initiative, regular performance reviews should be relatively easy.

1. **Consider and document the top five goals for your value chain. In achieving these goals, make a note of the performance measures that would indicate success (sample performance measures are provided below).**

   Goal Measurement method

   1. _____

   2. _____

   3. _____

   4. _____

   5. _____

   A sample of performance measures could include the following:

   Quantitative type measures:

   - Profit, profit margins
   - Return on investment
   - Return on assets
   - Reduced fixed or variable costs
   - Image/market recognition
   - Market leadership/market share
   - New markets
   - Time to market
   - Quality of product/service
   - Productivity
   - Overhead costs
   - Access to capital

Qualitative type measures:

- Customer satisfaction
- Reduced operating risks
- Increased expertise and knowledge base
- Innovations
- Improved relationships and/or corporate culture
- Political (lobbying) power

Step 2: Integrate Systems

In a value chain context, when people refer to a "systems approach," they are speaking about an approach where the entire value chain works together to maximize returns and minimize costs. In a systems approach, new value chain activities may require some groups to increase their operating or fixed costs. For example, producers may need to improve their product quality through new, and more expensive production techniques. In such a case, an adequate compensation will have to be devised. The better the working relationship between the value chain groups, the easier it will be to work towards an effective system that rewards improvements wherever they occur in the chain. In brief, systems thinking assumes and requires:

- an attitude of *mutual* continuous improvement amongst value chain partners
- sharing of strategic and operations data
- adapting your organizational systems to support the value chain alliance

Another aspect of maintaining a value chain approach is to integrate and synchronize the different processes involved in producing a product or service. For example, when producers supply crops to a processors, discussion prior to planting and ongoing monitoring are necessary to ensure that the processing plant operates at or near full capacity. Growers need to appreciate the serious financial implications of running a plant at low capacity. Likewise, the processor needs to appreciate the variability involved in crop production where *mother nature* plays such an important role. Integrating and synchronizing operations can work to benefit the whole value chain.

Integrating and synchronizing systems often involves human communication and the use of computer technology. The solution can be basic or complex depending on the nature of the value chain. It is left to the value chain participants to develop a communication plan and process to integrate operations (such as invoicing, harvesting/processing, etc.).

1. **It is important for value chain members to discuss what needs to change once the pilot project is implemented, what activities are required, the implications of the change (operating and fixed costs, labour input, new knowledge), who is responsible for the change and how rewards motivate such changes. Document these considerations with value chain partners.**

Change Needed	Activity Required	Cost and Time Implications	Responsibility	Rewards
e.g., Reduce variability of vegetable product	Integrated pest management system	Estimated at $35 per acre and 40 hours additional work	Growers	Small premium on products meeting specifications; discounts on others

(continued next page)

Change Needed	Activity Required	Cost and Time Implications	Responsibility	Rewards

Step 3: Build and Adapt

Over time, your value chain can expand providing you find and exploit new markets. During this period, you will want to:

- work on improving key processes (e.g., scheduling, taking inventory, invoicing, forecasting, etc.)
- set specific goals (e.g., reduce inventory and cycle times by summer, achieve a higher quality standard, etc.)
- identify barriers to effective communication, workflow, supply, etc.
- carefully manage the operational interfaces for best efficiency
- set up feedback mechanisms so you can measure your effectiveness

Be prepared to:

- support your partners in this approach
- learn as well as help others learn
- do things differently

Stage Three: Key Success Factors Check List

Review the key success factors in Stage Three (page 15), determine which are appropriate undertakings for your value chain, and record your progress below.

- ☐ Honest Pilot Evaluation
- ☐ Increasing Cohesion
- ☐ Opportunities to Learn
- ☐ Process for Ongoing Dialogue
- ☐ Commitment from the Top

How Can We (The Value Chain Initiative) Help?

Why a Value Chain Initiative?

Value chains do not develop overnight. These developments require champions and true leaders who are open to new business approaches. By establishing a Value Chain Initiative, the Agriculture and Food Council of Alberta, in conjunction with Alberta Agriculture, Food and Rural Development, are a catalyst for the adoption of value chain strategies within the agriculture and food industry in Alberta.

The purpose of the Value Chain Initiative is to create awareness and knowledge, while working with people in the agriculture and food industry to develop successful value chains and other collaborative business relationships.

What Does the Value Chain Initiative Offer?

The staff will work with you to facilitate the development of value chains and other collaborative business alliances by:

- Helping establish a communication platform (computer, fax, phone, face-to-face) for developing value chain concepts and plans.
- Helping develop ideas/solutions through group facilitation and expert input.
- Sharing stories of global value chain development successes and failures.
- Improving understanding of value chain solutions and conveying this to industry clients and government facilitators.

Where can I get more information about Value Chains and the Value Chain Initiative?

Agriculture and Food Council of Alberta
402, 1101-5 Street, Nisku, AB T9E 7N3
Phone: (780) 955-3714
Fax: (780) 955-3744

Alberta Agriculture, Food and Rural Development
Agri-Processing Branch
304, 7000 - 113 Street
Edmonton, Alberta T6H 5T6
Phone: (780) 427-7325
Fax: (780) 422-3655

References

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Porter, M.E. 1980. *Competitive Strategy*. Free Press